PRINCE EDWARD ISLAND ENERGY CORPORATION
ANNUAL REPORT
2009/10

Prince Edward Island Energy Corporation
27th Annual Report
For the Year Ended
March 31, 2010

Our Legislated Objectives

Pursuant to the (PEI) *Energy Corporation Act*, the legislated objectives of the Prince Edward Island Energy Corporation are ... "*to develop and promote the development of energy systems and the generation, production, transmission and distribution of energy in all its forms on an economic and efficient basis, to provide financial assistance for the development, installation and use of energy systems, and to coordinate all government programs in the establishment and application of energy systems in the province.*"

Our Core Activities

Consistent with our legislated objectives the Corporation:

- owns and operates wind farm operations at Elmira (30 Megawatts) and North Cape (10.56 Megawatts);
- owns electrical transmission facilities in Prince County that connects its North Cape operations and other renewable energy generators to the Maritime Electric grid;
- demonstrates the potential of energy storage, specifically intermittent renewable generation, through its development of the Wind-Hydrogen Village at North Cape;
- provides guidance to Government for the formulation of provincial policy, programs and legislation that pertain to energy matters;
- facilitate the financing of energy projects and energy systems from other funding sources.

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Message From the Minister

The Honourable Barbara Hagerman
Lieutenant Governor of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Lieutenant Governor:

In accordance with section 10.(1) of the (PEI) *Energy Corporation Act*, it is my pleasure to submit to the Legislative Assembly the 27th Annual Report of the Prince Edward Island Energy Corporation for the 2009-10 fiscal year.

Respectfully submitted,

Richard Brown

Richard E. Brown

Minister of Environment, Energy and Forestry
Minister Responsible for the Prince Edward Island Energy Corporation

Message From the Chief Executive Officer

The Honourable Richard E. Brown
Minister of Environment, Energy and Forestry
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Honourable Minister:

Developing and securing reasonably priced energy for the Province is high on Government's agenda and the Prince Edward Island Energy Corporation is at the forefront of those initiatives. The operations of the Prince Edward Island Energy Corporation's wind power facilities provide revenue to the Province . Just as importantly, the Corporation continues to demonstrate the value and viability of developing renewable energy projects within the province.

With the commissioning of Phase I at North Cape in 2001, Atlantic Canada's first commercial wind farm, PEI has become a national leader in this technology and now has 164 Megawatts of installed wind capacity. This has provided PEI with a measure of energy security and proven to provide price stability for electricity rates during periods of escalating fossil fuel costs.

Although the Corporation has lead the way in developing the Island's wind resource, the future trend is for the private sector to invest in this sector. The largest wind facility in the province at West Cape, owned and operated by Suez NA, provides renewable energy for export markets as well as the City of Summerside Electric Utility. It is expected that PEI will be well poised to supply other jurisdictions with green power to meet their environmental goals. Previous actions by the Corporation in regards to demonstrating the cost-effectiveness of developing wind farms in PEI and quantifying the provincial resource were instrumental in enabling these subsequent wind developments.

The Corporation also provides guidance to Government in formulating energy policy and direction. During this fiscal year the Corporation assisted with developing a strategy for introducing biomass combustion units in provincial buildings to reduce the dependence on imported oil for heating in the institutional

sector. The Corporation also provided input into the design of renewable energy systems to supply heat and cooling for the proposed Bio Commons Park in West Royalty.

In order to better capitalize on renewable energy from intermittent resources, such as the wind, efficient storage capability must be developed. The Prince Edward Island Energy Corporation's Hydrogen Village Project at North Cape has been successful in producing hydrogen fuel that is generated from wind power. Hydrogen gas that is created during periods when the wind turbines are operating may be stored and later consumed in an internal combustion engine or fuel cell when the wind is not blowing. The Corporation continues to demonstrate and advance this technology and is actively seeking partners to improve and, hopefully, replicate the system for other locales.

On behalf of the Board of Directors of the Prince Edward Island Energy Corporation it is my pleasure to provide you with the Annual Report that provides a description of the activities and financial accounting for fiscal year 2009 - 2010. It is my opinion that this Annual Report accurately describes the activities and finances of the Corporation during this reporting period.

Yours sincerely,

Wayne MacQuarrie
Chief Executive Officer

Executive Summary

The Prince Edward Island Energy Corporation is a provincial Crown corporation whose form and function is dictated by the (PEI) *Energy Corporation Act.* Through ownership of wind farms at North Cape (10.56 MW) and East Point (30 MW), the Corporation supplies approximately 120,000,000 kilowatt-hours of renewable electricity to Islanders. The Corporation provides an advisory service to government on energy matters that result in the formulation of policy, programs and legislation.

Reporting to the Minister responsible for energy matters, the Prince Edward Island Energy Corporation is governed by a Board of Governors that consists of between five and seven members. The day to day operations of the Corporation rest with a Chief Executive Officer who is also an ex officio board member.

During the year, the Corporation reported net revenue of $ 11.6 million from its wind farm operations as compared to $12.5 million recorded for 2008 - 2009. Electrical energy sales from North Cape and East Point facilities were $3.2 million and $8.2 million, respectively. Total electricity sales for this fiscal year were $11.3 million as compared to $12.1 million of the previous year.

Electricity sales at the North Cape Wind Farm increased from 30,989 Megawatt-hours in 2008 - 2009 to 32,200 Megawatt-hours in this fiscal year. This improvement was registered despite a major icing event in March 2010 which brought the farm down for more than a week during a period of excellent winds. The increase in production from the site did not translate into improved revenue due to a decrease in electricity prices during the past year. Total revenue was reduced from $3.9 million in the previous fiscal year to $3.2 million for this reporting period.

An objective for this year was to improve turbine availability at the East Point Wind Plant, and thus increase electricity production from the facility. This was accomplished. Despite replacing all ten gearboxes, machine availability improved to 89.4% as compared to 81.0% in the previous year. This increase in availability resulted in a 10% rise in energy sales, from 78,738 Megawatt-hours in 2008-09 to 86,779 Megawatt-hours. The only other major disruptions were the repair of switch gear in a turbine and the replacement of all three blades on another turbine.

Hydrogen gas has often been referred to as the fuel source of the future. The Corporation is engaged in two projects that are demonstrating the utilization of hydrogen fuel. The PEI Wind-Hydrogen Village Project, located at North Cape, utilizes renewable, but intermittent, wind energy to create hydrogen gas that is stored and consumed when the wind resource is not available. The Hydrogen Shuttle Bus and Fueling Demonstration Project in Charlottetown demonstrates the potential of hydrogen gas in a transportation application.

A significant milestone that was reached at the Wind-H0ydrogen Village was the successful production of hydrogen from wind power and the subsequent utilization of the hydrogen fuel in a generator to create electrical power. The viability of the technology was thus demonstrated and has attracted interest from other parties. Discussions were initiated with officials from Nunavut to explore the possibility of deploying a wind-hydrogen project in Canada's arctic.

Board of Directors

The affairs of the Prince Edward Island Energy Corporation are under the direction of a Board of Directors that consists of between five and seven members. John MacQuarrie, Deputy Minister of the Department of Environment, Energy and Forestry has served as chairperson of the Board since October 2004.

The names of the board members as of March 31, 2010 are provided in the following table. Included are the provincial departments that are represented on the Board and the beginning date of their appointment.

With the retirement of Reagh Hicken in February 2010, the position of Treasurer-Director is vacant. The Corporation thanks Reagh for his service on the Board and wishes him a long and happy retirement.

NAME	POSITION HELD	TERM OF APPOINTMENT
Deputy Minister for the Energy Portfolio (John MacQuarrie)	Chairperson	November 10, 1998 - at pleasure
Deputy Minister for Intergovernmental Affairs (Sandy Stewart)	Vice Chairperson	May 8, 2001 - at pleasure
Deputy Minister for Department of Innovation and Advanced Learning (Michael Mayne)	Director	November 10, 1998 - at pleasure
Reagh Hicken	Treasurer-Director	November 10, 1998 - February 2010 (retired)
Deputy Minister for Department of Transportation & Public Works (Steve MacLean)	Director	November 10, 1998 - at pleasure
Wayne MacQuarrie	Secretary-Director	May 8, 2001 - at pleasure

Staff of the Prince Edward Island Energy Corporation

The daily operations of the Prince Edward Island Energy Corporation are under the direction of the Chief Executive Officer, Mr. Wayne MacQuarrie, P. Eng. In addition to these duties, Mr. MacQuarrie serves as the Director of the Energy and Minerals Section under the Department of Environment, Energy and Forestry. Wayne has been serving the province for more than 26 years and his resume includes tenure as the province's Chief Engineer with the Department of Transportation and Public Works.

Administrative support for both the Corporation and the Energy and Minerals Section are the responsibility of Dawn Larter.

The Corporation's Senior Engineer is Mark Victor, P. Eng. Mark's primary responsibility is to oversee the operations at the Hydrogen Village. Mark's career experience includes project management in both the private and public sectors.

Annual Objectives

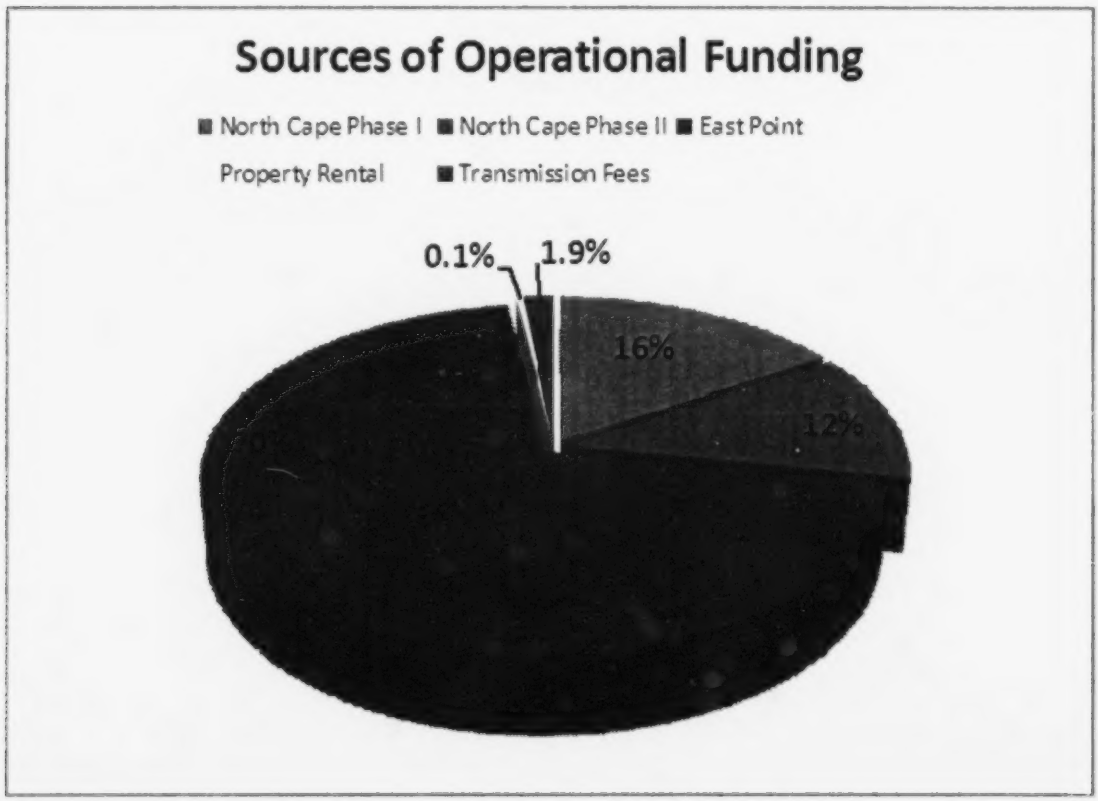
The Prince Edward Island Energy Corporation had set the following objectives for the 2009 - 2010 Fiscal Year:

- Operate the North Cape Wind Farm at a high level of availability;
- Improve the machine availability of the turbines at the East Point Wind Plant to increase the electrical generation and install the necessary hardware and software components that will control voltage spikes and dips that have been experienced at the site;
- Transition to the operational phase at the Hydrogen Village and proceed with prospecting for investors who wish to deploy this technology in other locales;
- Provide Government with advice on energy policy and to assist other departments with their renewable energy initiatives.

Operational Review for 2009 - 2010

Sources of Operational Revenue

The Prince Edward Island Energy Corporation has two main sources of operational revenue, those being the North Cape Wind Farm and the East Point Wind Farm. Other sources of operational revenue include 69 kV transmission lines which the



Corporation utilizes for the North Cape Wind Farm and charges fees for a private wind project to transmit their energy. Rental income accrues from an operations and maintenance building that the Corporation owns at the East Point Wind Plant that is leased by Vestas-Canadian Wind Technologies.

For the first time, environmental attributes were sold from renewable energy created by the Corporation's wind generation assets. While the Corporation negotiated this transaction, by legislative requirement these funds were remitted to the Province and are not registered as operational revenue for the Corporation.

Other Revenue

The Corporation receives revenue from other funding sources, in addition to the production from its wind farms and other associated activities. Revenue is received from Suez N.A. which is applied against the funding that the Corporation supplied for the development of an electrical transmission line to connect renewable energy projects in western Prince County. Suez owns and operates a 99 MW wind farm at West Cape, as well as a 9 MW facility in Norway, PEI.

From the federal *Trust Fund for Clean Air and Climate Change,* the Corporation distributes financing to various "green" energy projects which included $400,000 for a program to establish wind turbines at Island rinks. The Wind Energy Institute of Canada (WEICan) was contracted to select the most viable locations for the turbines and, at the conclusion of this fiscal year, was in a position to proceed with this project. The Corporation distributes funding from this revenue source to fund the operations of the PEI Office of Energy Efficiency.

An annual operational grant is also received by the PEI Energy Corporation from the provincial government.

North Cape Wind Farm

Located at the northwestern tip of the province, the North Cape Wind Farm has an excellent wind regime. The fleet of sixteen Vestas V-47 turbines at the site continue to provide reliable service for the Prince Edward Island Energy Corporation. With a generating capacity of 660 kilowatts each, North Cape has a nominal generating capacity of 10.56 MW

Built in two phases, Phase I was commissioned in November 2001 and became Atlantic Canada's first commercial wind farm. Phase II, consisting of the second installment of eight turbines was commissioned two years later.

As noted in the following table, the electricity sales in 2009 -2010 reversed their trend of decline with the return of wind speeds to near average levels. During the year there were no major mechanical breakdowns but extended outages were experienced in October 2009 and March 2010. The October outage was the result of a substation malfunction that was created by salt spray. Approximately one week of operation was lost during the first week of March due to a severe icing incident which drastically reduced that month's expected production.

North Cape Wind Farm Annual Electricity Sales
FY 2005-06 to FY 2009-10 and Five-Year Average
Megawatt-hours

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	Five-Year Ave.
Phase I	17,655	17,017	16,295	15,567	16,526	16,611
Phase II	16,370	16,505	15,074	15,422	15,674	15,809
Total	34,025	33,522	31,369	30,989	32,200	32,420

Open exposure to the Gulf of St. Lawrence provides North Cape with its excellent wind resource but also provides a harsh marine environment for electrical and mechanical equipment. The October outage prompted the Corporation to meet with Maritime Electric Company, Limited (MECL) engineering staff to determine what precautions or increased maintenance must be preformed on substation and transmission infrastructure to mitigate further similar incidents. MECL will provide, in the near future, recommendations and cost estimates for corrective measures and infrastructure improvements.

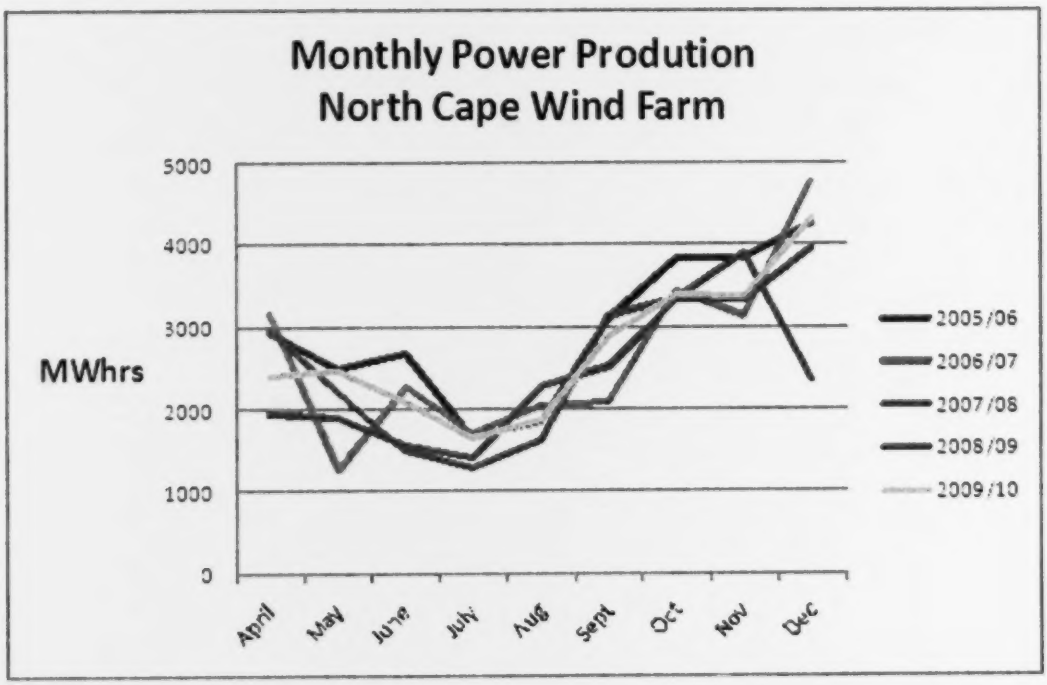
Increased power production during the past year did not translate into more revenue from the North Cape facility. As noted in the following table, there was a $648,000 decrease in revenue for FY 2009-10 as compared to the previous year. This was due to considerably lower selling prices for electricity.

Electricity sales from the North Cape Wind Farm are based on MECL's "avoided cost" for electricity. The term avoided cost means the price that the utility would otherwise have to pay at the time of purchase for electricity from the next available source of generation.

North Cape Total Revenue* FY 2005-06 to FY 2009-2010 and Five-Year Average $ x 1000					
FY 2005-06	**FY 2006-07**	**FY 2007-08**	**FY 2008-09**	**FY 2009-10**	**Five-Year Ave.**
2,786	**3,086**	**3,634**	**3,894**	**3,246**	**3,268**

*Total Revenue includes payments for electricity and production incentives from the provincial and federal governments. Deductions and additions from energy imbalance charges are also included in Total Revenue.

The seasonality of wind production is demonstrated in the accompanying graph. Late fall through early spring consistently produce the most optimum winds for electrical production.



East Point Wind Plant

Commissioned in January/February 2007, the East Point Wind Plant is a 30 Megawatt facility that consists of ten, Vestas V-90 turbines. Included in the $47 million wind farm is a transformer pad, overhead collection system and 2.5 kilometers of service road. All electricity generated from the turbines is sold to Maritime Electric Company, Ltd. (MECL) under a long-term power purchase agreement. The price for this power is determined through the *Renewable Energy Act Minimum Price Regulations* and was originally set at 7.75 cents per kilowatt-hour. After April 1, 2008, and for each year after, a portion of the price, 2.0 cents/kilowatt-hour, is adjusted based on the Consumers Price Index (CPI).

Operations and maintenance of the turbines is through a five-year agreement with Vestas that entered its third year of enforcement in January 2010. This agreement provides comprehensive service and parts replacement for the turbines and includes an includes a machine availability covenant. Vestas must maintain a minimum machine availability of 95% or pay the Corporation liquidated damages based on a formula that calculates lost revenue from turbine downtime below this figure.

Despite another total replacement of gearboxes (all gearboxes were replaced last year, as well), the site produced 86,779 Megawatt-hours of electricity which was very close to an expected annual production of 90,000 Megawatt-hours. The only other major mechanical breakdowns were the malfunction of switchgear in a turbine which required a replacement unit and the replacement of all three blades on another turbine.

The most promising data reported at East Point was the vast improvement of turbine availability which was recorded as 89.4% for this past fiscal year as compared to only 81.0% for FY 2008-09. However, due to the machine availability covenant described above, Vestas will be paying the Corporation $423,000 in liquidated damages to cover the shortfall in energy production that is calculated from the difference between 95% and 89.4% availability.

To improve the power quality from the substation, the Corporation added the necessary hardware and software to control line voltage by manipulating the power factor of individual turbines. Swings in voltage on the 69,000 volt transmission line had been causing problems for the utility. This project was completed in March and has been producing the desired results of keeping the line voltage within acceptable limits.

To ensure the safe and reliable operation of the East Point Wind Plant, Maritime Electric compiled an operations manual from site visits. The manual details the protocols and procedures for responding to various emergencies, as well as routine maintenance work. It was noted during a site visit that there were deficiencies on certain components of the collector lines. During a two-day period in November 2009, in which winds were low, the transmission line to the facility was de-energized to allow the required retrofits.

Turbine Availability and Electricity Production East Point Wind Plant FY 2007-08 to FY 2009-10		
Fiscal Year	Availability (%)	Electricity Production (Megawatt-hours)
FY 2007-08	89.2	85,497
FY 2008-09	81.0	78,738
FY 2009-10	89.4	86,779
Average	86.5	83,671

Sale of Environmental Attributes

For the first time, renewable energy production from the Prince Edward Island Energy Corporation's translated into a sale of "environmental attributes". Environmental attributes may be defined as the environmental premiums created from the generation of a low emission or zero-emission renewable energy source and are sometimes referred to as "green credits" or Renewable Energy Credits (REC's).

The Corporation negotiated a two-year contract with TD Bank that resulted in a sale of the environmental attributes from 5,161 Megawatt-hours of production from the East Point Wind Plant during the fiscal year. TD has voluntarily bought these attributes to displace their "carbon footprint" in Atlantic Canada as part of their corporate commitment to decrease greenhouse gas emissions in their operations. The Corporation did not sell any other attributes from the facility that produced more than 86,000 Megawatt-hours of electricity. It is anticipated that the sale of environmental attributes from both wind facilities will increase as the market becomes better defined as government and industry respond to climate change and other air quality issues.

Pursuant to section 10. of the (PEI) *Renewable Energy Act* "any environmental attributes that are earned by a large capacity renewable energy generator or a public utility from the generation of electric power are appropriated and reserved to her Majesty in right of the province" ..... . Therefore, the proceeds of the sales to TD Bank were turned over to the Department of Environment, Energy and Forestry.

PEI Wind-Hydrogen Village Project

The PEI Wind-Hydrogen Village Project is a research, development and demonstration initiative being operated at North Cape, with the objective of establishing a unique, grid-independent renewable energy supply system. Utilizing an intermittent energy supply, wind power, the system supplies electricity from wind turbines when that resource is available. Wind turbines also provide the energy required to create hydrogen gas from water molecules. During periods when there is no wind or low wind, stored hydrogen gas is used to fuel a generator that keeps electricity flowing to the project's buildings.

The near term potential for wind-hydrogen technology includes deployment in Canada's northern and remote communities that are entirely dependant on diesel fuels to operate electrical generation sets. Displacement of fossil fuels for electricity production may provide a savings in fuel costs, as well as result in environmental benefits from emission reductions and eliminate possible diesel fuel spills. In the longer term, the production of hydrogen fuel from renewable energy may displace industry's requirement from acquiring this gas from fossil fuels and lead to future transportation and energy storage applications.

During the past year, hydrogen gas was created from a renewable energy source (wind power) and was consumed for electrical generation. The viability of the technology was thus demonstrated. The next step in the project is to prospect for interested parties to deploy the technology in another locale, preferably a remote location. A delegation from Nunavut has visited the Wind-Hydrogen Village and is interested in developing a similar facility in one of their communities.

Other Energy Initiatives

The Prince Edward Island Energy Corporation provides direction and advice to Government on the formulation of policy, legislation and initiatives that pertain to energy. On occasion, the Corporation also assists other provincial departments and agencies to pursue energy initiatives, particularly in regards to developing renewable energy resources.

Pursuing Electricity Supply Options

Prince Edward Island is highly dependent on fossil fuels for its energy supply. Of the Province's total energy supply, 76% is derived from liquid petroleum products. In 2008, the new Prince Edward Island Energy Strategy - "*Securing our Future: Energy, Conservation and Renewables*" - was released. One of this document's key objective is to improve energy security through greater self-sufficiency, improved price stability and diversity of supply. This will require breaking the dependence on imported oil products and the Corporation, over its history, has developed renewable energy projects throughout the Province to meet this objective.

Electricity supply accounts for 12% of PEI's total energy supply and this sector is also highly reliant on generation that is derived from fossil fuels or has its price based on these commodities. Efforts by the Corporation have led to a rapid deployment in wind power that now accounts for 18% of the electricity supply. However, wind power is an intermittent resource that must be backstopped by conventional generation. During the past months, the Corporation has been involved in discussions with Hydro Quebec and Nalcor (provincial crown corporation of Newfoundland and Labrador) to acquire hydro power for Prince Edward Island. Hydro power may backstop wind generating facilities in PEI, as well as provide long-term, competitive and stable pricing for electricity.

Trust Fund for Clean Air and Climate Change

Over the past three years (FY 2007/08 through FY 2009/10) the Department of Environment, Energy and Forestry was charged with disbursing $15 million from the federal government to fund projects and initiatives to address clean air and

climate change. In excess of $9 million of this funding was provided to the PEI Energy Corporation to construct a transmission line from Summerside to O'Leary to connect renewable energy projects in western Prince County to the grid. The transmission line has facilitated the operation of Suez's West Cape facility. Because the transmission line has been overbuilt, other wind projects are expected

to gain access to this infrastructure which will further the development of clean, renewable power generation in PEI.

A considerable operating expense for Island rinks is electricity. The Corporation accessed $400,000 from the Trust Fund for Clean Air and Climate Change to install wind turbines at six rinks to offset some of these facilities' electricity bills. The Wind Energy Institute of Canada (WEICan) has been commissioned by the Corporation to select the rink locations and oversee the installation of the turbines.

10 Point Plan

In October 2008, Premier Robert Ghiz released the Province's policy document on wind power - the 10 Point Plan - which provides the blue print for future development. Contained within the document is a goal to increase the existing 164 MW of wind capacity to 500 MW by 2013.

A starting point for increasing the Island's wind generating capacity was the release of Maritime Electric's Request for Proposals (RFP) of up to 130 MW of renewable power this past October. Of this amount of new generation, 30 MW would be allocated to domestic supply with the remainder destined for export markets.

While Maritime Electric took the lead in issuing the RFP to potential developers, the PEI Energy Corporation was actively involved in the process.

Prince Edward Island Energy Corporation

Consolidated Financial Statements

Year ended March 31, 2010

Fitzpatrick & Company
Chartered Accountants

Auditors' Report

We have audited the consolidated statement of financial position of Prince Edward Island Energy Corporation as at March 31, 2010 and the consolidated statements of operations, surplus, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements for the year ended March 31, 2009 were audited by another auditor who issued an unqualified report dated May 21, 2009.

Fitzpatrick + Company
Chartered Accountants

Charlottetown, PE
June 01, 2010

Prince Edward Island Energy Corporation

Consolidated Statement of Financial Position

March 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash	$ 3,645,661	$ 6,269,552
Accounts receivable (note 2)	2,221,441	3,741,764
Receivable from Province of Prince Edward Island	493,817	-
Prepaid expenses	407,893	524,377
Current portion of loan receivable	400,000	400,000
	7,168,812	10,935,693
Long-term investment (note 3)	20,000	58,079
Loan receivable (note 4)	2,628,658	2,896,581
Property and equipment (note 5)	50,516,228	58,717,276
Asset held for sale (note 6)	5,000,000	-
Bond issue costs (note 7)	32,750	51,470
	$ 65,366,448	$ 72,659,099
Liabilities and Surplus		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 828,165	$ 3,216,464
Payable to Province of Prince Edward Island	-	1,617
Current portion of long-term debt	1,738,431	3,353,378
	2,566,596	6,571,459
Long-term debt (note 8)	39,028,787	47,420,219
Interest payable	845,823	550,655
Bonds payable (note 9)	7,218,250	7,278,250
Surplus	15,706,992	10,838,516
Financial instruments and risk management (note 10)		
Commitments (note 11)		
Contingencies (note 12)		
	$ 65,366,448	$ 72,659,099

On Behalf of the Board:

_____, Director _____, Director

The accompanying notes are an integral part of these financial statements.

Prince Edward Island Energy Corporation

Consolidated Statement of Operations

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Grants - Province of Prince Edward Island	$ 584,100	$ 577,983
Expenditures:		
Advertising	448	397
Amortization of bond issuance costs	18,720	18,720
Audit	9,448	12,735
Consulting fees	207,237	215,826
Grant to Wind Energy Institute of Canada - Operations	131,000	131,000
Insurance	6,838	6,250
Materials and supplies	4,378	6,879
Office and computer equipment	2,763	4,814
Office and computer supplies	2,029	1,920
Professional fees	47,885	25,093
Telecommunications	3,150	3,451
Travel and training	26,389	25,338
Wages and employee benefits	129,090	125,560
	589,375	577,983
Loss before the undernoted	(5,275)	-
Other income/expenses:		
Wind Farm	3,546,038	4,290,816
Hydrogen Village	(579,985)	(1,495,594)
Clean Air and Climate Change	2,507,117	7,268,377
Grant - Environmental Attributes	115,000	55,120
Grant - Transmission line	(845,697)	(6,003,512)
Grant - Concessionary loan	-	(737,607)
Grant recovery - Concessionary loan	132,077	34,188
Interest - Transmission line	(799)	(1,803)
Natural Resources Canada	400,000	500,000
Grant to WEICan - Wind research and development	(400,000)	(500,000)
	4,873,751	3,409,985
Net earnings	$ 4,868,476	$ 3,409,985

The accompanying notes are an integral part of these financial statements.

Prince Edward Island Energy Corporation

Consolidated Statement of Surplus

For the Year Ended March 31, 2010, with comparative figures for 2009

	2010	2009
Surplus, beginning of year	$ 10,838,516	$ 7,428,531
Net earnings	4,868,476	3,409,985
Surplus, end of year	$ 15,706,992	$ 10,838,516

The accompanying notes are an integral part of these financial statements.

Prince Edward Island Energy Corporation

Consolidated Statement of Cash Flows

Year ended March 31, 2010 with comparative figures for 2009

	2010	2009
Cash from operating activities:		
Cash receipts from customer	$ 18,936,992	$ 21,781,328
Cash paid to suppliers and employees	(9,768,907)	(10,886,712)
Interest received	41,168	211,714
Interest paid	(1,891,926)	(2,980,086)
	7,317,327	8,126,244
Cash flows from investing activities:		
Decrease in long-term investments	38,079	104,823
Acquisition of property and equipment	(180,841)	(5,281,943)
Decrease (increase) in loan receivable	267,923	(3,296,581)
	125,161	(8,473,701)
Cash flows from financing activities:		
Repayments on long-term borrowings	(6,234,379)	(2,380,223)
Proceeds from short-term borrowings	-	3,772,000
Repayments on short-term borrowings	(3,772,000)	(335,100)
Issuance of bonds	-	234,000
Redemption of bonds	(60,000)	-
	(10,066,379)	1,290,677
Net increase (decrease) in cash	(2,623,891)	943,220
Cash, beginning of period	6,269,552	5,326,332
Cash, end of period	$ 3,645,661	$ 6,269,552

The accompanying notes are an integral part of these financial statements.

Prince Edward Island Energy Corporation is a Crown corporation established by the Energy Corporations Act, and therefore is exempt from income taxes under Section 149(1)(d) of the Canadian Income Tax Act. The Corporation's principal business activities include the development and promotion of energy systems.

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the corporation's 100% owned subsidiary, Prince Edward Island Renewable Energy Corporation. The assets and liabilities of the subsidiary are intially recorded at cost. The results of operations are included from the date of incorporation. All significant intercompany transactions and balances are eliminated upon consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of non-restricted cash and short-term, highly liquid investments with an original maturity date of 90 days or less. Cash equivalents are stated at amounts that approximate fair value, based on quoted market prices.

(c) Property and equipment:

Property and equipment related to the North Cape and East Point Wind Generating Plants are recorded at cost. Office furniture, equipment and computer equipment are fully expensed in the year of acquisition.

Amortization is provided using the straight-line method at the following annual rates:

Asset	Rate
Wind Farm- North Cape	20 years
Norway line	20 years
Buildings	20 years
Wind Farm-East Point	20 years

(d) Asset held for sale

Asset held for sale is comprised of a 100 Megawatt electrical line and is accounted for at the lower of cost and estimated net realizable value. The company expects to dispose of it in fiscal 2011. Asset held for sale is not amortized.

(e) Long-term investments:

Long-term investments are stated at cost.

(f) Loan receivable:

The loan receivable is recorded at cost less a discount representing the concessionary term of the loan. The discount is the difference between the face value of the loan and its present value. To determine present value, the Corporation used the Province's 10-year borrowing rate as at December 31, 2008. The loan discount is amortized to revenue using the effective interest rate method.

Significant accounting policies:

(g) Revenue recognition:

Revenues are recorded in the period in which the transaction or events that give rise to the revenues occur. Amounts that have been received in advance of services being rendered are recorded as deferred revenue until the Corporation discharges the obligations that led to the collection of funds. Interest revenue is calculated and recognized as specified with the lending agreements.

(h) Financial instruments:

The Corporation classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Corporation's accounting policy for each category is as follows:

Held-for-trading:
This category comprise certain investments in equity and debt instruments, stand-alone derivatives, other than those designated as hedging items, and embedded derivatives requiring separation. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

Loans and receivables:
These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to customers (accounts receivable), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

Available-for-sale investments:
Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise certain investments in equity instruments, including the Corporation's investments in private companies. When they have a quoted market price in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income. When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in the fair value is determined to be other than temporary, the amount of the loss is removed from comprehensive income and recognized in the income statement. Transaction costs related to available-for-sale investments are expensed as incurred.

Other financial liabilities:
Other financial liabilities include all financial liabilities other than those classified as held-for-trading and comprises trade payables, other short-term monetary liabilities and bank borrowings. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

Significant accounting policies:

(i) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from management's best estimates as additional information becomes available in the future.

(j) Bond issue costs:

Bond issue costs consist of direct costs incurred in issuing the bonds, including printing, advertising, legal fees and other professional fees.

The bond issue costs are amortized on a straight-line basis over the period from the date the bonds were issued to their maturity date. The bonds are for a term of five years.

(k) Financial risk management objectives and policies:

The Corporation's risk management policies are part of the overall management of the entity's operations. Management's direct involvement in day-to-day operations identifies risks and variations from expectations leading to changes in risk management activities, requirement and actions. As part of the overall management of the entity's operations management considers avoidance of undue concentrations of risk, and employs appropriate investment and credit management policies to manage the Corporation's exposure.

2. Accounts receivable:

		2010	2009
Trade	$	2,233,501	$ 3,651,283
G.S.T.		(12,060)	90,481
	$	2,221,441	$ 3,741,764

3. Long-term investment:

	2010	2009
Frontier Power Systems Inc.	$ 20,000	$ 58,079

During the year, a number of the preferred shares held in Frontier Power System Inc. were redeemed for proceeds of $ 38,079. (2009 - $104,823.)

4. Loan receivable:

	2010	2009
West Cape Wind Energy, Inc., non-interest bearing, payable in equal annual principal installments of $ 400,000., amortized to 2018, secured by a guarantee of its parent, Suez Energy North America, Inc.	$ 3,028,658	$ 3,296,581
Less current portion of loan receivable	400,000	400,000
	$ 2,628,658	$ 2,896,581

The maturity of the loan receivable for each of the five years subsequent to March 31, 2010 is as follows: 2011 - $ 400,000.; 2012 - $ 400,000.; 2013 - $ 400,000.; 2014 - $ 400,000. and 2015 - $400,000.

5. Property and equipment:

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Wind Farm - East Point	$ 46,659,283	$ 7,386,926	$ 39,272,357	$ 41,605,323
Land - East Point	19,000	-	19,000	19,000
Land - Line Extension	180,841	-	180,841	-
Wind Farm - Phase I	8,924,480	3,752,338	5,172,142	5,618,365
Wind Farm - Phase II	7,562,295	2,393,059	5,169,236	5,547,352
Building	665,751	100,131	565,620	598,907
Norway line	203,010	65,978	137,032	147,182
Transmittal line under construction	-	-	-	5,181,147
	$ 64,214,660	$ 13,698,432	$ 50,516,228	$ 58,717,276

6. Asset held for sale:

During the year the Corporation has completed construction on a 100 Megawatt electrical line and has announced its intention to sell the line. In the prior year this asset was accounted for as an asset under construction. The total cost to construct the line was $ 5,001,133. Management has determined the net realizable value of the line to be $ 5,000,000. (2009 - $ 5,181,147.) The Corporation has recognized an impairment loss of $ 181,147. in the current year. Management is anticipating the asset will be sold in 2011 fiscal year.

7. Bond issue costs:

	2010	2009
Bond issue costs	$ 93,590	$ 93,590
Less accumulated amortization	(60,840)	(42,120)
	$ 32,750	$ 51,470

8. Long-term debt:

	2010	2009
Province of P.E.I. Provincial Treasury, 4.87% debenture, payable in monthly payments of principal and interest of $ 209,730., starting April 30, 2007, due March 31, 2022	$ 22,836,916	$ 24,205,159
Province of P.E.I. Provincial Treasury, floating interest rate based on the Province's borrowing rate, with no set terms of repayment	12,684,400	12,684,400
Bank of Montreal, 6.6%, payable in equal monthly payments of principal and interest of $ 82,051., due October 2016, secured by signed commitment letter and Province of Prince Edward Island Order in Council guaranteeing the full amount of loan	5,245,902	5,862,038
Province of P.E.I. Provincial Treasury, repaid during the year	-	4,250,000
Province of P.E.I. Provincial Treasury, repaid during the year	-	2,803,000
Province of P.E.I. Provincial Treasury, repaid during the year	-	969,000
	40,767,218	50,773,597
Less current portion of long-term debt	1,738,431	3,353,378
	$ 39,028,787	$ 47,420,219

The aggregate maturities of long-term debt for each of the five years subsequent to March 31, 2010 are as follows: 2011 - $ 1,738,431.; 2012 - $ 1,711,665.; 2013 - $ 1,684,384.; 2014 - $ 1,656,616. and 2015 - $ 1,628,395.

9. Bonds payable:

As at March 31, 2010, a total of 268 (2009 - 272) annual interest bond units with a total issued value of $ 1,816,700. (2009 - $ 1,856,700.), and 1,204 (2009 - 1,206) compound interest bond units with a total issued value of $ 5,401,550. (2009 - $ 5,421,500.) were outstanding for a total bonds payable of $ 7,218,250. (2009 - $ 7,278,250.).

The bonds mature five years from the date of issuance and have a fixed interest rate of 5% per annum. Annual interest bonds bear simple interest, payable annually on the anniversary date of issuance up to and including the maturity date for the bonds. Interest on compound interest bonds is compounded annually on the anniversary date of issuance up to and including the maturity date. Interest on compounded bonds accumulates and is payable on the maturity date of the bonds. The bonds are guaranteed by the Province of Prince Edward Island.

Fair value information on bonds payable has been omitted because it is not practical to determine the fair value of this financial instrument due to its unique characteristics and the lack of an organized market where this financial instrument can be traded.

The aggregate maturities of bonds issued for each of the four years subsequent to March 31, 2010 are as follows: 2011 - $ Nil.; 2012 - $ 5,284,200.; 2013 - $ 1,690,050.; and 2014 - $ 244,000.

10. Financial instruments and risk management:

	March 31, 2010		March 31, 2009	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Held-for-trading				
Cash and cash equivalents	$ 3,645,661	$ 3,645,661	$ 6,269,552	$ 6,269,552
Loans and receivables				
Trade and other accounts receivable	2,221,441	2,221,441	3,741,764	3,741,764
Loan receivable, including current	3,028,658	3,028,658	3,296,581	3,296,581
Available for sale investments				
Long-term investments	20,000	20,000	58,079	58,079
Other financial liabilities				
Trade and other accounts payable	828,162	828,162	3,216,464	3,216,464
Interest payable	845,823	845,823	550,655	550,655
Long-term debt, including current	40,767,218	41,322,573	50,773,597	51,754,266
Bonds payable	$ 7,218,250	$ 7,218,250	$ 7,278,250	$ 7,278,250

The carrying values of financial instruments included in current assets and current liabilities approximate their fair value, reflecting the short-term maturity, normal trade credit terms and/or the nature of these instruments. The fair value of long-term debt is calculated by discounting the future cash flow of each debt instrument at the estimated yield to maturity for the same or similar issues at the balance sheet date, or by using quoted market prices when available. The fair value of the Corporation's long-term debt is determined using the provincial Crown borrowing rate for similar terms. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, has not been recorded in the statements.

To manage its current and anticipated exposure to interest rate risks, the Corporation has entered into an interest rate swap contract whereby it has fixed the interest rate on a total of $ 5,245,902. (2009 - $5,862,038.) of notional principal against the floating interest position assumed by the Bank of Montreal. The swap contract has an effective interest rate of 6.6% and will mature in October 2016.

The Corporation utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.

All transactions related to financial instruments are recorded on a trade date basis.

11. Commitments:

The Corporation has committed up to $ 2,490,000. on a P.E.I. Wind-Hydrogen project and has spent $ 2,302,788. (2009 - $ 1,625,653.) to date.

12. Contingencies:

The Corporation has entered into a contract with the Department of Natural Resources (NRCan) under the Wind Power Production Incentive program. In the event that revenue from the sale of production of the Wind Farm exceeds the standardized market value of the production, the incentives received must be repaid to NRCan. During the year, revenue was not in excess of the standardized market value and consequently, no liability must be recorded.

13. Capital management:

The Corporation's debt management plan is built on the goal of ensuring the capacity to meet long-term obligations and ensuring financial health, while achieving the growth plans of the Corporation. There has been no change with respect to overall capital risk management strategy during the year.

As a Crown corporation, PEI Energy Corporation receives its long-term capital funding primarily from the Province of Prince Edward Island.

The Corporation's capital consists of short-term debt having a term to maturity of one year or less, long-term debt having a term to maturity greater than one year and equity, primarily in the form of surplus.

14. Changes in presentation of comparative financial statements:

Certain comparative figures have been reclassified to conform with the current year's financial statements presentation.